

MINNESOTA POST-SECONDARY FINANCE AND GOVERNANCE POLICIES

Testimony to the Joint Hearing
of
Education Division of House Appropriations Committee
and
Higher Education Division of House Education Committee

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POST SECONDARY EDUCATION POLICIES

Average Cost Funding--state funding for public post-secondary systems

Uniform Cost Related Tuition Policy--tuition revenue in public systems

Design for Shared Responsibility--financial aid to students in all post-secondary institutions through Scholarship and Grant Program

Governance--authority of lay governing boards of public post-secondary systems

Interstate Tuition Reciprocity--opportunity to attend public institutions in neighboring states

GOALS OF POLICIES

QUALITY

EFFICIENCY

EQUITY

ACCESS

1983 CONDITIONS AND THEIR EFFECTS

Conditions

state fiscal crisis; unstable national economy

current state policies, incrementally developed, no longer able to meet objectives or future state needs

federal policy changes and budget reductions

changes in demography; projected enrollment declines

Effects

threat to quality of educational services provided by public institutions

imminent reduction of opportunity for students and parents as costs rise

imminent shift in participation patterns from high to low cost programs and institutions

lack of adequate funding for some individual programs and institutions as total resources spread broadly

reduction in real spending per student

increased burden on state funds as federal policies change

overlap of mission and duplication of services

curtailed ability of post-secondary education to contribute to economic redevelopment

FUNDING POLICY

Prior to 1983

separate funding arrangements for particular institutions and systems

--core funding for some institutions

--program funding for AVTIs

--enrollment bulge funding

--specials

funding policies not applied equitably; systems treated differently

differences in legislative appropriations processes

differences in recognition of cost patterns

differences in extent to which policies promote quality, efficiency,
and resource management

AVERAGE COST FUNDING

Features

provides state appropriations for instruction in public systems
relates state funding to number of students served and cost of
serving students

differentiates average costs by level of instruction and cost
category of program for each system

bases funding on enrollment two years earlier

gives governing boards discretion in allocating funds to colleges,
campuses and programs

applies market incentives to public post-secondary system

AVERAGE COST FUNDING
(Hypothetical Community College System)

I. Step 1. System and Campus Budgets and Expenditures.

DIRECT PROGRAMS		SUPPORT PROGRAMS	
INSTRUCTION	RESEARCH	SUPPORT	PLANT
Budget	Budget	Budget	Budget
Agriculture	Program A	Library	Fuel & Ut
Area Studies	Program B	Administration	Custodian
Management	.	Business Office	Maintenan
Communication	.	Student Services	.
Computer Science	etc	.	.
Education		.	etc
Engineering		etc	
Foreign Languages			
Mathematics			
Letters			
Social Sciences			
Arts			
.			
.			
etc			
Actual Expenditures	Actual Exp	Actual Exp	Actual Ex

II. Step 2. Calculation of Direct Instructional Spending per FYE

INSTRUCTION	EXPENDITURES	ENROLLMENT	\$ PER FYE
Agriculture	\$500,000	125	\$4,000
Area Studies	\$100,000	50	\$2,000
Management	\$250,000	100	\$2,500
Communication	\$100,000	20	\$5,000
Computer Science	\$350,000	100	\$3,500
Education	\$800,000	450	\$1,778
Engineering	\$750,000	130	\$5,769
Foreign Languages	\$200,000	110	\$1,818
Mathematics	\$275,000	105	\$2,619
Letters	\$950,000	400	\$2,375
Social Sciences	\$875,000	350	\$2,500
Arts	\$450,000	200	\$2,250
.	.		
.	.		
etc	etc		
Actual Expenditures	\$5,600,000	2,140	\$2,617

IV. Step 4. Calculation of Instructional Cost per FYE

PROGRAM	DIR COST PER FYE	INDIRECT COST/FYE	INSTRUC COST/FYE	ENROLLMENT	INSTRUC COST
Engineering	\$5,769	\$2,407	\$8,176	130	\$1,062,880
Communication	\$5,000	\$2,407	\$7,407	20	\$148,140
Agriculture	\$4,000	\$2,407	\$6,407	125	\$800,875
Computer Science	\$3,500	\$2,407	\$5,907	100	\$590,700
Mathematics	\$2,619	\$2,407	\$5,026	105	\$527,730
Social Sciences	\$2,500	\$2,407	\$4,907	350	\$1,717,450
Management	\$2,500	\$2,407	\$4,907	100	\$490,700
Letters	\$2,375	\$2,407	\$4,782	400	\$1,912,800
Arts	\$2,250	\$2,407	\$4,657	200	\$931,400
Area Studies	\$2,000	\$2,407	\$4,407	50	\$220,350
Foreign Languages	\$1,818	\$2,407	\$4,225	110	\$464,750
Education	\$1,778	\$2,407	\$4,185	450	\$1,883,250
TOTAL INSTRUCTIONAL EXPENDITURE					\$10,751,025

V. Step 5. Calculation of Cell Values

PROGRAM	ENROLLMENT	INSTRUC COST	CELL VALUE
Engineering	130	\$1,062,880	
Communication	20	\$148,140	
Agriculture	125	\$800,875	
Computer Science	100	\$590,700	
HIGH COST CELL	375	\$2,602,595	\$6,940
Mathematics	105	\$527,730	
Social Sciences	350	\$1,717,450	
Management	100	\$490,700	
Letters	400	\$1,912,800	
MEDIUM COST CELL	955	\$4,648,680	\$4,868
Arts	200	\$931,400	
Area Studies	50	\$220,350	
Foreign Languages	110	\$464,750	
Education	450	\$1,883,250	
LOW COST CELL	810	\$3,499,750	\$4,321
TOTALS	2,140	\$10,751,025	

VI. Step 6. Application of the ACF Matrix

LEVEL OF COST	FY 85 CELL VAULE	FY 86 CELL VALUE	FY 84 FYE ENROLL	FY 86 INSTR EXPEND	FY 86 CELL VAULE	FY 85 FYE ENROLL	FY 87 INSTR EXPEND
HIGH	\$6,940	\$7,218	413	\$2,977,260	\$7,542	375	\$2,828,397
MEDIUM	\$4,868	\$5,063	1,051	\$5,318,387	\$5,291	955	\$5,052,468
LOW	\$4,321	\$4,494	891	\$4,004,011	\$4,696	810	\$3,803,811
TOTALS			2,354	\$12,299,659		2,140	\$11,684,676
TUITION %				0.33			0.33
TUITION REVENUE				\$4,058,887			\$3,855,943
TUITION RATE*				1,997			1,997

* Assume FY 86 FYE of 2,033

* Assume FY 87 FYE of 1,931

AVERAGE COST FUNDING

Incentives and Benefits

encourages maintenance and enhancement of quality in order
to successfully compete for students

encourages efficient use of resources to keep expenditures
(and tuition) down

treats all systems equitably through uniform application

controls for differential growth in programs and levels of
instruction

provides incentive for planning

provides funding based on actual, rather than projected,
enrollments

TUITION POLICY

Prior to 1983

no comprehensive state-level tuition policy

different percentages of state subsidy provided to
post-secondary systems

different rates of subsidy provided to students in
different systems

incentive for systems to require increased student
share when state subsidy is reduced;
unanticipated tuition increases possible

COST RELATED TUITION POLICY

Features

relates tuition to cost of providing instruction

requires tuition revenue as percentage of instructional costs
to be same in each collegiate system--33 percent in 1985-87
biennium; 25 percent in AVTIs

sets system level tuition revenue based on instructional
expenditures

allows governing boards to set specific tuition levels

assumes availability of student financial aid for needy students

COST RELATED TUITION POLICY

Incentives and Benefits

specifies equitable sharing of costs between state and students

considers tuition revenue as important source of funding

allows for reasonable levels of funding to ensure quality education

treats all students and systems equitably

provides incentive for governing boards to use resources efficiently

leaves discretion to governing boards in setting specific tuition rates

relates price of product charged to consumer to production costs

reduces regressivity of state post-secondary funding

STATE SCHOLARSHIP AND GRANT POLICY

Prior to 1983

inequitable treatment of students; most needy students expected to make largest contribution; heavier work and borrowing expectation placed on poorer students

overreliance on federal policy; state award in combination with federal grant may not exceed 75 percent of estimated need

reduction of opportunity for students to attend institutions of their choice due to limits on maximum award and of need met by state and federal government

unfair rationing system

imbalanced assignment of responsibility of student, family, institution and government in paying costs

reduction in grant size to most needy students as college costs rise and funds spread broadly among increased number of recipients

inequitable distribution of benefits by income group

arbitrary application deadline cutoff

DESIGN FOR SHARED RESPONSIBILITY
IN STATE SCHOLARSHIP AND GRANT PROGRAM

Features

50 percent student contribution

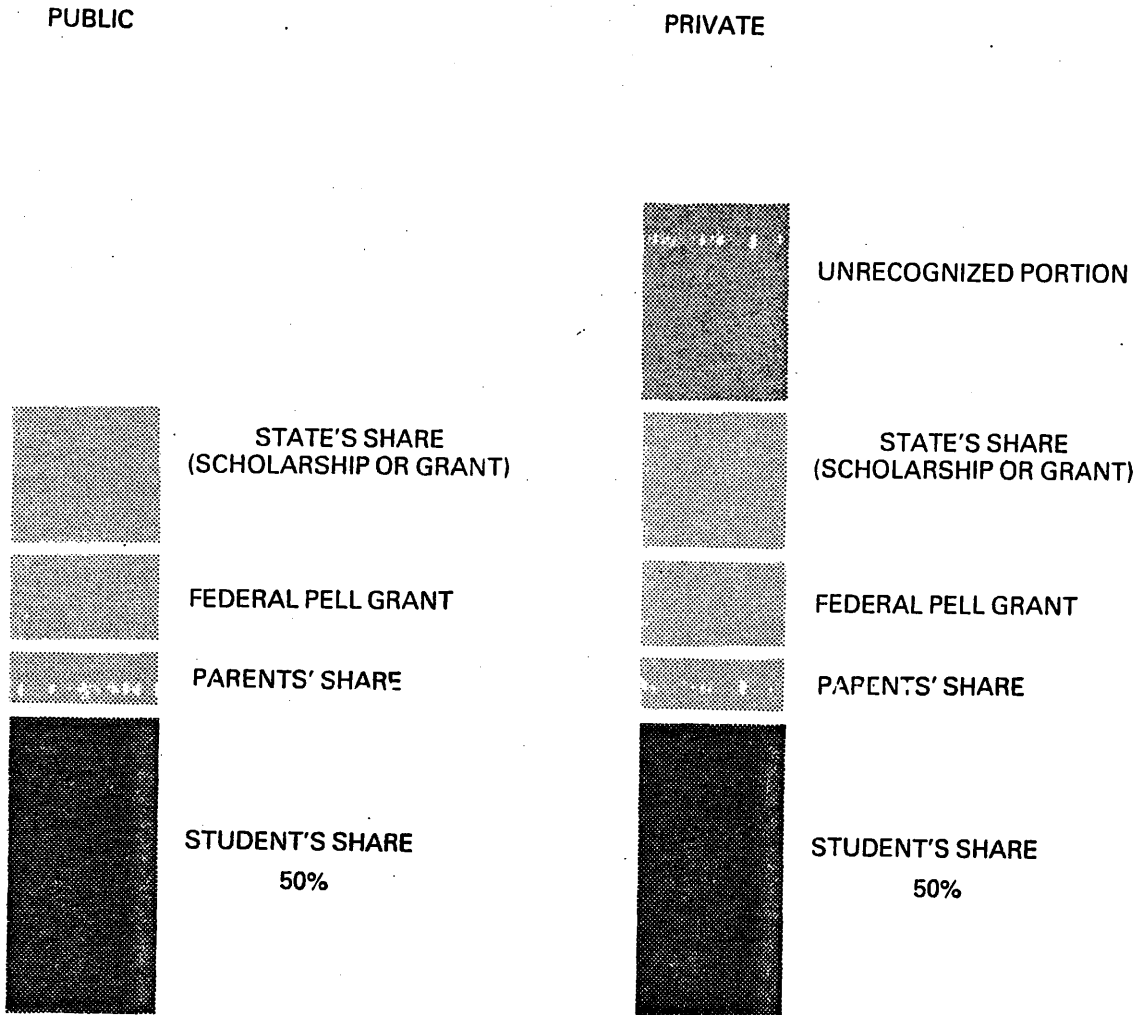
parental contribution (national need analysis)

combination of federal and state grants

equitable rationing mechanism

**FIGURE II.1
THE DESIGN FOR SHARED RESPONSIBILITY**

**DESIGN FOR SHARED RESPONSIBILITY REQUIRES A
STUDENT SHARE SET AT 50% OF THE COST OF
ATTENDANCE PLUS THE UNRECOGNIZED COST PORTION**



DESIGN FOR SHARED RESPONSIBILITY

Incentives and Benefits

ensures equal educational opportunity to all institutions

defines responsibility of student, parent, government

targets grants to most needy students

treats all students equitably

establishes state role independent of federal role, but
takes into account all available federal aid

establishes clear state policy to private sector of post-
secondary education

provides for more effective coordination of grant, loan
and work policies

provides competitive market model

is cost effective

PER STUDENT COSTS: PUBLIC VS PRIVATE

DOF 2/5/85

ASSUME: A STUDENT WITH FULL NEED, i.e., NO PARENTAL CONTRIBUTION
FY 84 DATA

	STATE + GRANT	67% OF COST *	STATE EXPENSE
AVTI STUDENT	633.00	3005.48	3638.48
COMMUNITY COLLEGE STUDENT	640.00	1788.70	2428.70
STATE UNIVERSITY STUDENT	650.00	2505.60	3155.60
U OF M STUDENT	710.00	3611.97	4321.97
4-YR PRIVATE COLLEGE STUDENT	1605.00	0.00	1605.00
2-YR PRIVATE COLLEGE STUDENT	1150.00	0.00	1150.00

* COST = AVERAGE COST FOR EACH SYSTEM, 2/3 OF WHICH IS PAID BY STATE APPROPRIATION AND 1/3 BY TUITION

+ Average state grant as reported in the Report to the Governor and 1985 Legislature by Higher Education Coordinating Board, pp. 65-71.

GOVERNANCE

Prior to 1983

fragmented structure in governance of AVTIs

limited cooperation with community colleges

status of AVTI system not comparable to other post-
secondary education systems

distinction between management roles of governing
boards and broad funding and policy roles of
legislative and executive branches blurred

confusion over specific authority of governing boards

GOVERNANCE

Features

new state board of vocational-technical education

authority for public boards to close their institutions

authority to carry over funds from first year of biennium
to second year of biennium

authority to carry over unexpended balance up to 2 percent
of biennial appropriation to following biennium

discretion to allocate funds among colleges, campuses and
programs

authority to set tuition rates within system

mandated preparation of short range and long range system
plans

GOVERNANCE POLICY

Incentives and Benefits

clarifies and strengthens managerial authority of governing boards

provides post-secondary systems with greater flexibility in use of
resources

enables governing boards to adapt to change more effectively

ensures greater cooperation and planning between systems and
institutions

gives governing boards greater capability to implement funding policies

focuses state policy on overall missions and broad funding issues and
not on incremental budget requests

INTERSTATE TUITION RECIPROCITY

Prior to 1983

student pays resident rate of institution in neighboring
state

agreements provide financial attraction to leave state on
basis of price

continued high financial liability to state because it is
net exporter of students

REVISED RECIPROCITY AGREEMENTS

Features

Minnesota-Wisconsin: student pays tuition rate comparable to home state rate

Minnesota-Dakotas: student pays negotiated regional tuition reciprocity rate that approximates average of tuition rates in comparable institutions in both states; rates differ by cluster of institutions

REVISED RECIPROCITY AGREEMENTS

Incentives and Benefits

preserves access and choice of opportunity for Minnesota students

encourages quality program offerings by extending competition

encourages efficient use of state resources

minimizes financial incentive for Minnesota students to leave state;
focuses decision on availability and quality of programs

provides indirect economic benefit for students

provides potential incentive to reduce duplication of programs in
neighboring states and provides catalyst for reducing costs by
coordinating programs

PER STUDENT COSTS: PUBLIC VS RECIPROCITY

DOF 2/5/85

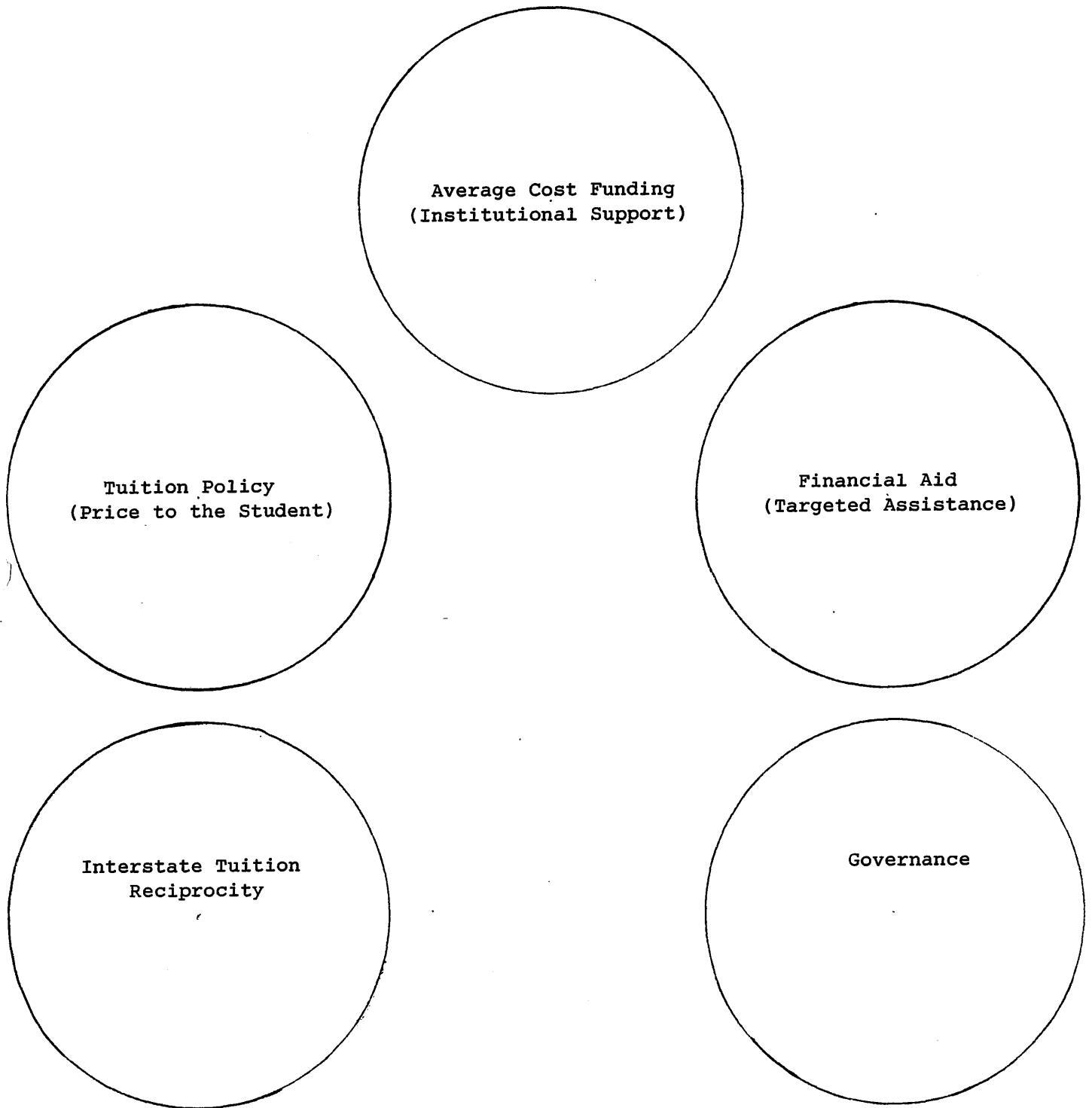
ASSUME: A STUDENT WITH NO FINANCIAL NEED REGARDLESS OF CHOICE
FY 84 DATA

	NET RECIPROCITY PAYMENT+	67% OF COST *	STATE EXPENSE
AVTI STUDENT	0.00	3005.48	3005.48
COMMUNITY COLLEGE STUDENT	0.00	1788.70	1788.70
STATE UNIVERSITY STUDENT	0.00	2505.60	2505.60
U OF M STUDENT	0.00	3611.97	3611.97
NORTH DAKOTA	100.00	0.00	100.00
SOUTH DAKOTA	600.00	0.00	600.00
WISCONSIN	600.00	0.00	600.00

* COST = AVERAGE COST FOR EACH SYSTEM, 2/3 OF WHICH IS PAID BY STATE APPROPRIATION AND 1/3 BY TUITION

+ Net cost as reported in Report to the Governor and 1985 Legislature
pp. 157-159 (HECB).

INTER-RELATIONSHIPS OF POLICIES



AVERAGE COST FUNDING

Effects

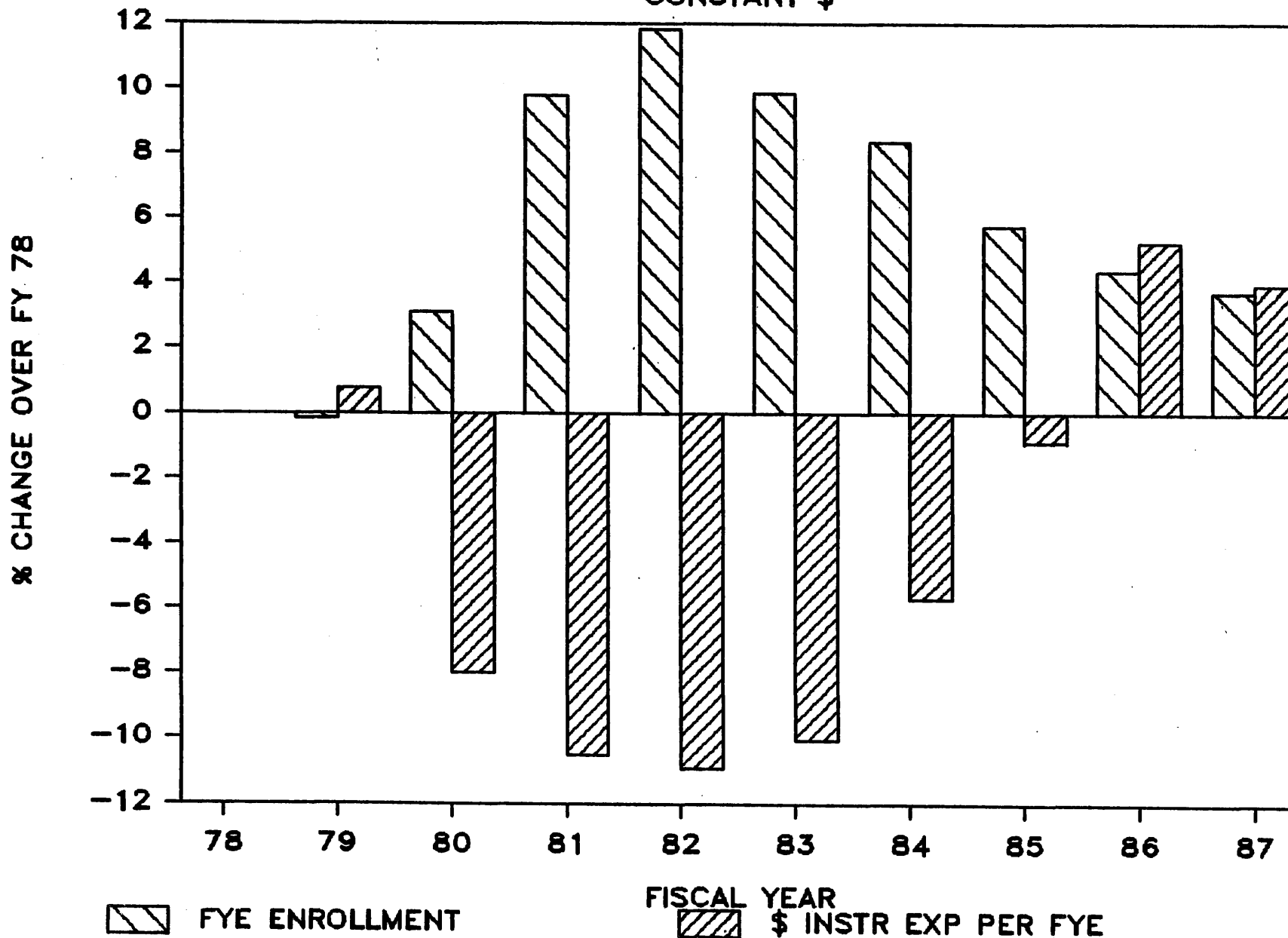
restoration of real instructional funding per student

refined definitions of costs and students

GOVERNOR'S POLICY

POST SECONDARY EDUCATION

CONSTANT \$



COST RELATED TUITION POLICY

Effects

equity of tuition as percentage of instructional costs

large infusion of revenues from tuition

DESIGN FOR SHARED RESPONSIBILITY

Effects (1982-83 to 1983-84)

increase in award recipients

higher levels of funding and larger average grants

shifts in distribution of funds from middle and upper income
families to students from lower income families

increase in total dollars to students in all sectors and systems

increase in proportion of awards and total dollars to students
in public systems compared to private systems

changes in proportion of fund distribution among public systems

one-to-one relationship between increasing parental contribution
and decreasing grant assistance

JOINT IMPACTS OF TUITION AND FINANCIAL AID POLICIES

access and choice preserved and enhanced

targeting of state subsidy

tuition increases more than offset by increases in financial aid grants to students from families with least ability to help pay for post-secondary education

tuition increases fully offset at parental contribution levels up to family incomes ranging from \$25,000 to about \$29,000; varies by system

tuition increases partially offset at parental contribution levels corresponding to family incomes ranging from \$29,000 to \$31,000

net price increases in parental contribution levels corresponding to average family incomes above \$29,000 to \$31,000 range

GOVERNANCE

Effects

new Board of Vocational-Technical Education in operation

intersystem planning enhanced, particularly between AVTIs,
community colleges

expansion of system planning efforts

REVISED RECIPROCITY AGREEMENTS

Effects

little change in participation levels: opportunities preserved

reduction in total liability to state

reduction in net cost per student

REMAINING ISSUES

treatment of fixed costs as enrollments decline

current separation of capital budgeting from funding policies

mix in revenues between tuition and appropriations (student share
versus state share)

differentiation in tuition costs between vocational and academic
components

financial aid opportunities for students not protected against tuition
increases

effect of significant federal policy and budget changes on state
obligation for financial aid

delineation and clarification of mission and role of systems

split governance dilemma in AVTI system

TABLE I. 21
 TOTAL GENERAL FUND EXPENDITURES, STATE APPROPRIATIONS, GENERAL FUND INSTRUCTIONAL
 EXPENDITURES AND TUITION REVENUE FOR MINNESOTA PUBLIC POST-SECONDARY EDUCATION SYSTEMS
 FISCAL YEARS 1978-1985, DOLLARS IN THOUSANDS

	FY 1978 Actual	FY 1979 Actual	FY 1980 Actual	FY 1981 Actual	FY 1982 Actual	FY 1983 Actual	FY 1984 Actual	FY 1985 Estimate
TOTAL GENERAL FUND EXPENDITURES¹								
Area Vocational-Technical								
Institutes ²	\$ 98,663.9	\$109,148.7	\$125,617.3	\$136,356.1	\$154,335.2	\$162,979.0	\$164,834.0	\$168,574.3
Community College System ³	41,091.9	44,470.0	49,986.6	53,680.6	62,431.2	66,729.7	75,958.5	84,762.8
State University System	89,508.2	96,670.8	105,141.8	109,239.5	124,169.5	134,111.1	151,027.5	166,128.1
University of Minnesota	253,075.0	270,714.6	294,905.1	326,955.6	357,379.0	371,859.2	407,921.9	446,981.3
TOTAL	\$482,339.0	\$521,004.1	\$575,650.8	\$626,231.8	\$698,314.9	\$735,679.0	\$799,741.9	\$866,446.5
TOTAL STATE APPROPRIATIONS								
Area Vocational-Technical								
Institutes	\$ 90,406.4	\$ 98,148.1	\$106,737.0	\$115,688.5	\$131,647.0	\$122,698.9	\$122,808.5	\$124,216.9
Community College System ³	30,650.2	33,096.6	37,046.8	37,512.8	43,965.0	43,862.0	48,652.7	57,085.4
State University System	70,502.3	75,581.0	80,781.5	81,744.9	91,865.1	95,020.4	101,199.4	110,923.5
University of Minnesota	187,471.1	200,536.8	222,257.3	220,583.0	253,834.4	255,792.6	282,019.3	317,273.2
TOTAL APPROPRIATIONS	\$379,030.0	\$407,362.5	\$446,822.6	\$455,529.2	\$521,311.5	\$517,373.9	\$554,679.9	\$609,499.0
GENERAL FUND TOTAL INSTRUCTIONAL EXPENDITURES⁴								
Area Vocational-Technical								
Institutes	\$ 90,978.8	\$101,274.6	\$117,686.7	\$128,339.1	\$146,210.5	\$154,901.1	\$157,100.5	\$161,028.0
Community College System	37,968.9	41,090.3	46,187.6	49,600.9	57,686.4	59,046.9	67,299.9	74,780.3
State University System	82,789.7	89,355.3	97,133.6	98,563.1	113,640.7	124,314.4	139,914.6	154,536.7
University of Minnesota	171,210.8	183,384.5	NA	216,609.4	NA	242,146.4	268,155.4	301,087.9
TOTAL	\$382,948.2	\$415,104.7	NA	\$493,112.5	NA	\$580,408.8	\$632,470.3	\$691,432.9
TUITION REVENUE								
Area Vocational-Technical								
Institutes	\$ 8,257.5	\$ 11,000.6	\$ 18,880.3	\$ 20,667.6	\$ 22,688.2	\$ 26,736.5	\$ 33,336.8	\$ 41,000.0
Community College System ³	8,795.4	9,714.1	11,067.2	13,411.5	15,961.3	19,693.9	23,765.4	24,147.6
State University System	19,142.1	19,889.4	21,834.0	23,786.4	28,248.6	35,389.6	45,471.9	51,095.6
University of Minnesota	48,757.3	52,159.3	57,582.6	67,068.3	74,289.9	83,392.0	91,185.7	102,907.3
TOTAL	\$ 84,952.3	\$ 92,763.4	\$109,364.1	\$124,933.8	\$141,188.0	\$165,212.0	\$193,759.8	\$219,150.5

NA—Not Available

¹ Expended through the State General Fund.

² Excludes Local Levy.

³ Excludes Activity Fee.

⁴ Based on Definitions in the *Average Cost Funding Task Force Report*, Minnesota Finance Department, May 1984.

Source: Minnesota Department of Finance

TABLE I. 22
 TUITION REVENUE AS A PERCENT OF GENERAL FUND INSTRUCTIONAL/EXPENDITURES,
 FULL-YEAR EQUIVALENT AND AVERAGE DAILY MEMBERSHIP ENROLLMENTS, AND TOTAL GENERAL FUND
 INSTRUCTIONAL EXPENDITURES PER FYE OR ADM IN CURRENT AND CONSTANT DOLLARS
 FOR MINNESOTA PUBLIC POST-SECONDARY EDUCATION SYSTEMS, FISCAL YEARS 1978-1985

	FY 1978 Actual	FY 1979 Actual	FY 1980 Actual	FY 1981 Actual	FY 1982 Actual	FY 1983 Actual	FY 1984 Actual	FY 1985 Estimate
TUITION REVENUE AS A PERCENT OF GENERAL FUND INSTRUCTIONAL EXPENDITURES								
Area Vocational-Technical								
Institutes	9.08%	10.86%	16.04%	16.10%	15.52%	17.26%	21.22%	25.46%
Community College System	23.16%	23.64%	23.96%	27.04%	27.67%	33.35%	35.31%	32.29%
State University System	23.12%	22.26%	22.48%	24.13%	24.86%	28.47%	32.50%	33.06%
University of Minnesota	28.48%	28.44%	NA	30.96%	NA	34.52%	34.00%	34.18%
FULL YEAR EQUIVALENT/AVERAGE DAILY MEMBERSHIP ENROLLMENTS¹								
Area Vocational-Technical								
Institutes	35,445	35,685	36,771	40,549	40,373	41,359	41,442	40,184
Community College System	20,267	19,650	21,456	23,295	24,880	24,624	24,439	23,430
State University System	38,518	38,384	39,442	41,975	43,104	42,102	41,813	41,323
University of Minnesota	57,818	58,057	59,053	61,046	61,628	58,916	57,049	55,850
TOTAL	152,048	151,776	156,722	166,865	169,985	167,001	164,743	160,787
TOTAL GENERAL FUND INSTRUCTIONAL EXPENDITURES PER FYE OR ADM								
Area Vocational-Technical								
Institutes	\$2,567	\$2,838	\$3,201	\$3,165	\$3,621	\$3,745	\$3,791	\$4,007
Percent Change from FY 1978	0.0%	10.6%	24.7%	23.3%	41.1%	45.9%	47.7%	56.1%
Community College System	\$1,873	\$2,091	\$2,153	\$2,129	\$2,319	\$2,398	\$2,754	\$3,192
Percent Change from FY 1978	0.0%	11.6%	14.9%	13.7%	23.8%	28.0%	47.0%	70.4%
State University System	\$2,149	\$2,328	\$2,463	\$2,348	\$2,636	\$2,953	\$3,346	\$3,740
Percent Change from FY 1978	0.0%	8.3%	14.6%	9.2%	22.7%	37.4%	55.7%	74.0%
University of Minnesota	\$2,961	\$3,159	NA	\$3,548	NA	\$4,110	\$4,700	\$5,391
Percent Change from FY 1978	0.0%	6.7%	NA	19.8%	NA	38.8%	58.7%	82.1%
TOTAL GENERAL FUND INSTRUCTIONAL EXPENDITURES PER FYE OR ADM IN CONSTANT DOLLARS²								
Area Vocational-Technical								
Institutes	\$3,937	\$4,037	\$4,146	\$3,702	\$3,853	\$3,745	\$3,597	\$3,620
Percent Change from FY 1978	0.0%	2.5%	5.3%	-6.0%	-2.1%	-4.9%	-8.6%	-8.0%
Community College System	\$2,873	\$2,975	\$2,788	\$2,490	\$2,467	\$2,398	\$2,613	\$2,883
Percent Change from FY 1978	0.0%	3.5%	-3.0%	-13.3%	-14.2%	-16.5%	-9.1%	0.3%
State University System	\$3,297	\$3,311	\$3,190	\$2,746	\$2,805	\$2,953	\$3,175	\$3,378
Percent Change from FY 1978	0.0%	0.4%	-3.2%	-16.7%	-14.9%	-10.4%	-3.7%	2.5%
University of Minnesota	\$4,542	\$4,493	NA	\$4,150	NA	\$4,110	\$4,460	\$4,870
Percent Change from FY 1978	0.0%	-1.1%	NA	-8.6%	NA	-9.5%	-1.8%	7.2%

NA—Not Available

¹ Based on Definitions in the *Average Cost Funding Task Force Report*, Minnesota Finance Department, May 1984. AVTI enrollments include adult vocational enrollments; collegiate enrollments include all summer session and extension enrollments.

² Higher Education Price Index Used as Deflator FY 1983 = 100.0.

Source: Minnesota Department of Finance